



Arizona Economic Update

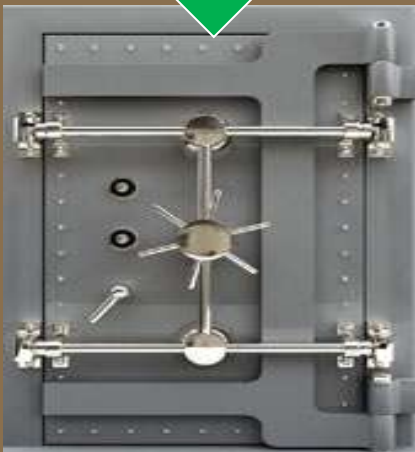
Office of the Arizona State Treasurer Dean Martin



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OFFICE OF THE ARIZONA STATE TREASURER





All state funds must be
deposited at
Treasurer's Office

FY 08 total was:

\$39.10 Billion



Daily Revenue



State Spending

Invested



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Inside the Trading Room *A Day In the Life...*



- Last Business Day 2006 \$2.3 Billion in cash
- Example of one trade of over 300 trades executed
 - Out to bid for overnight repo (loan collateralized by US Treasuries)
 - 12/29/06 to mature on 1/2/07
 - The bid winner sent us \$2.346 Billion in US Treasuries
 - 1/2/07 received \$2.3 Billion back
 - We were paid \$1.3 million in interest!



Our Investment Philosophy

SAFETY
before
LIQUIDITY
before
YIELD



S & P Rating of Pool 5

AAAf / S1

We Continue
To Maintain
The Highest
Rating From
S & P



S1

S2

S3

S4

S5

S6

AAAf

AA+f

AAf

AA-f

A+f

Af

A-f

BBB+f

BBBf

BBB-f

BB+f

BBf

BB-f

B+f

Bf

B-f

CCC+f

CCCf



Treasurer's FY 08 Performance

Operating Revenue to the State of Arizona
State Agencies, Endowment and LGIP Clients

Earnings Distributed (profits):

2007: \$539,921,966

2008: \$350,056,194

\$890 million in profits!



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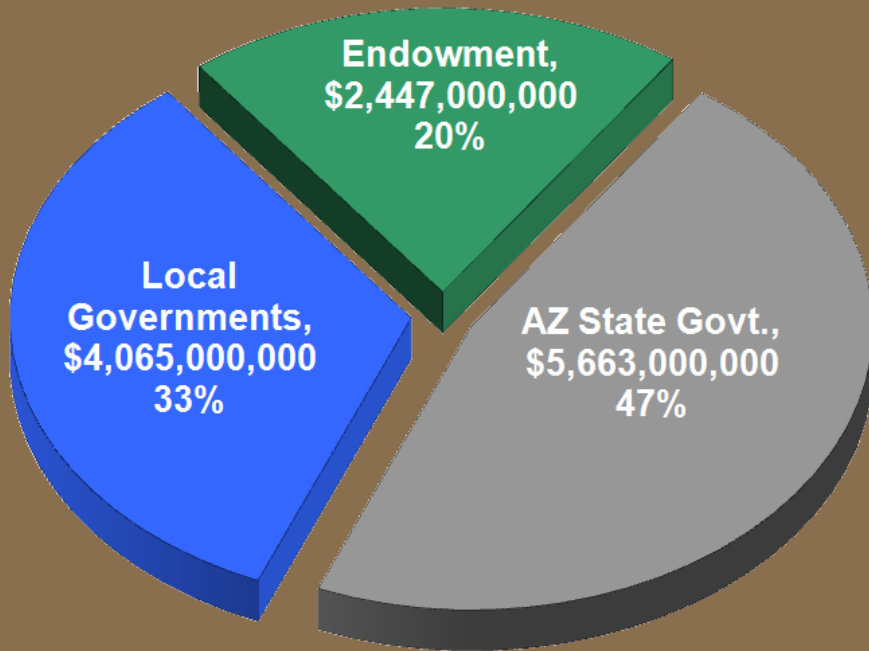
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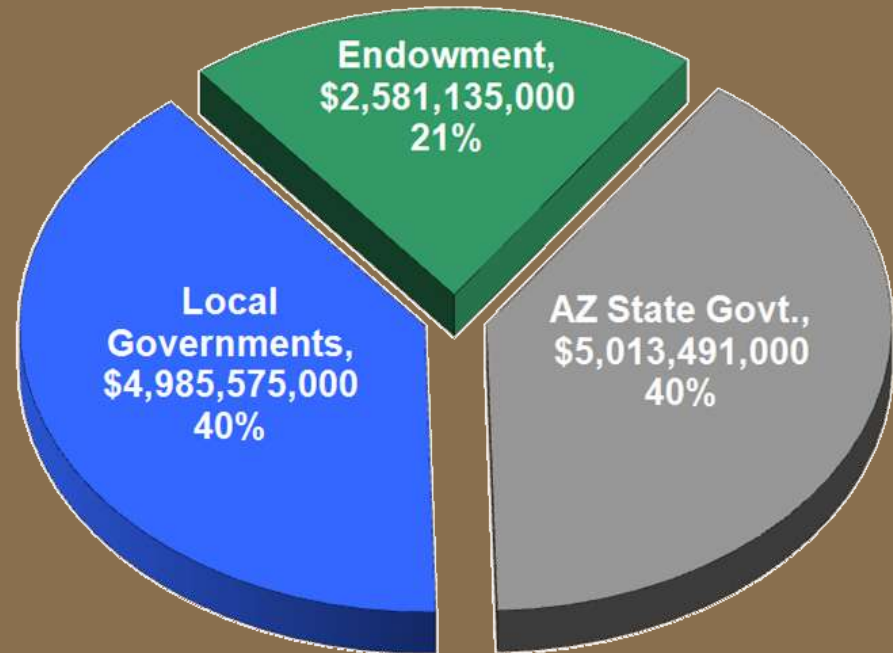


Assets Under Management (market value)

June 2007



June 2008



\$1 Billion in additional Voluntary Investments!



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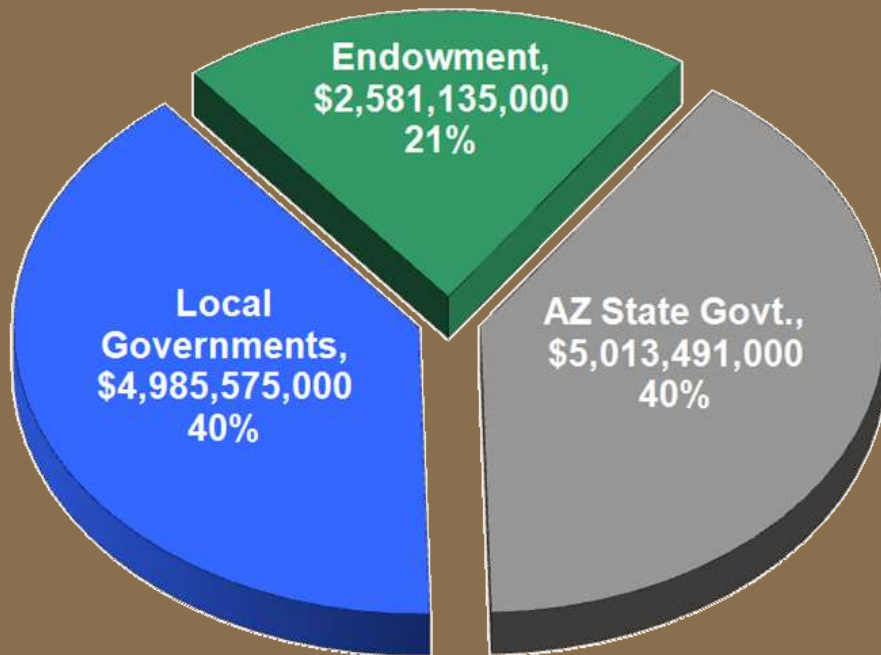
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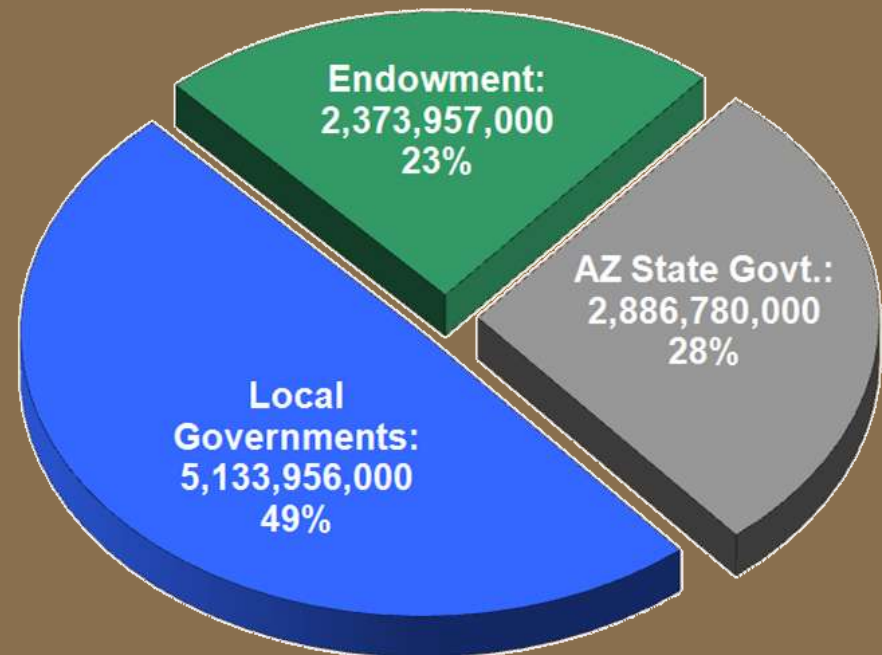


Assets Under Management (market value)

June 2008



May 2009



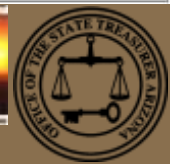
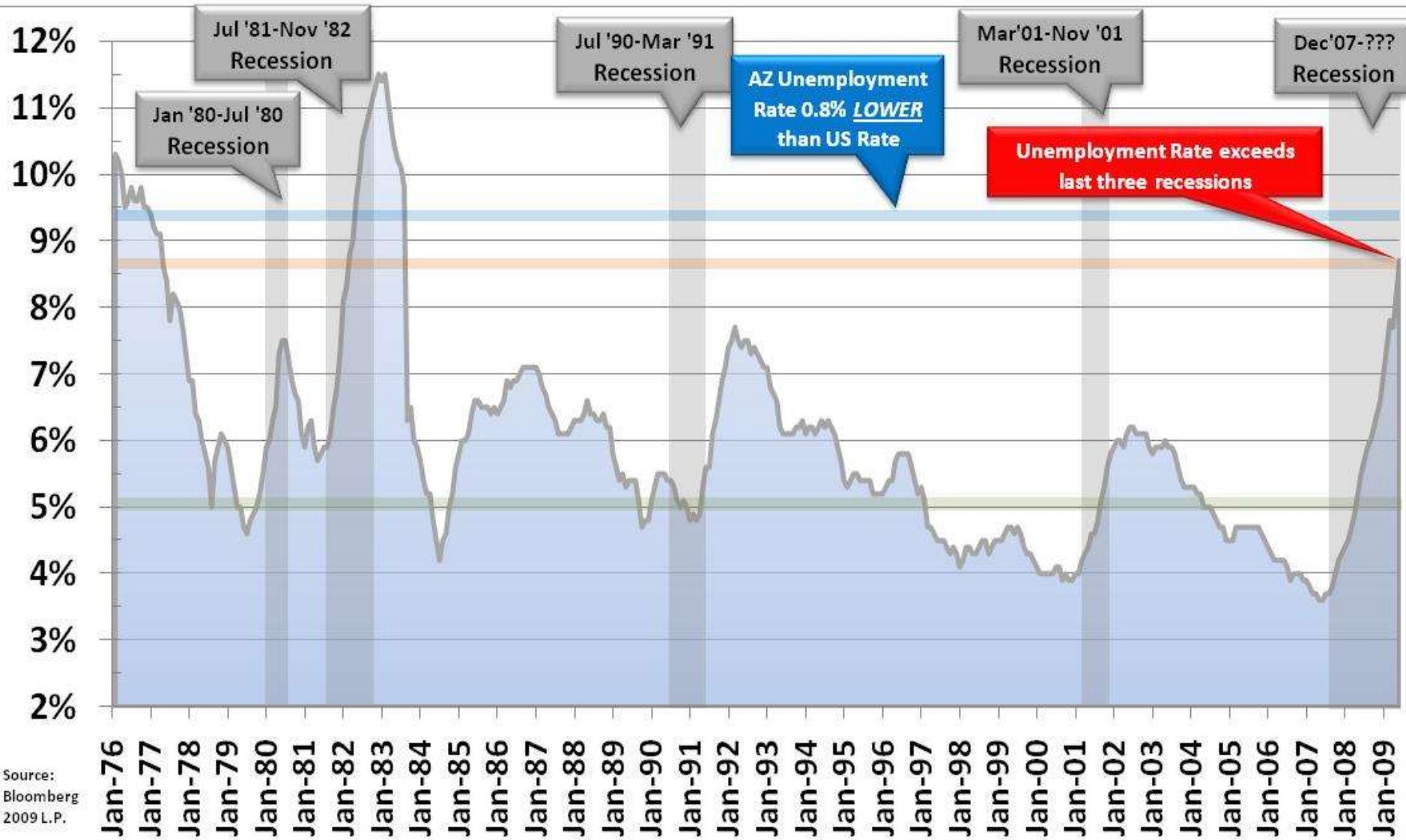
State balances drop by over \$2 Billion!



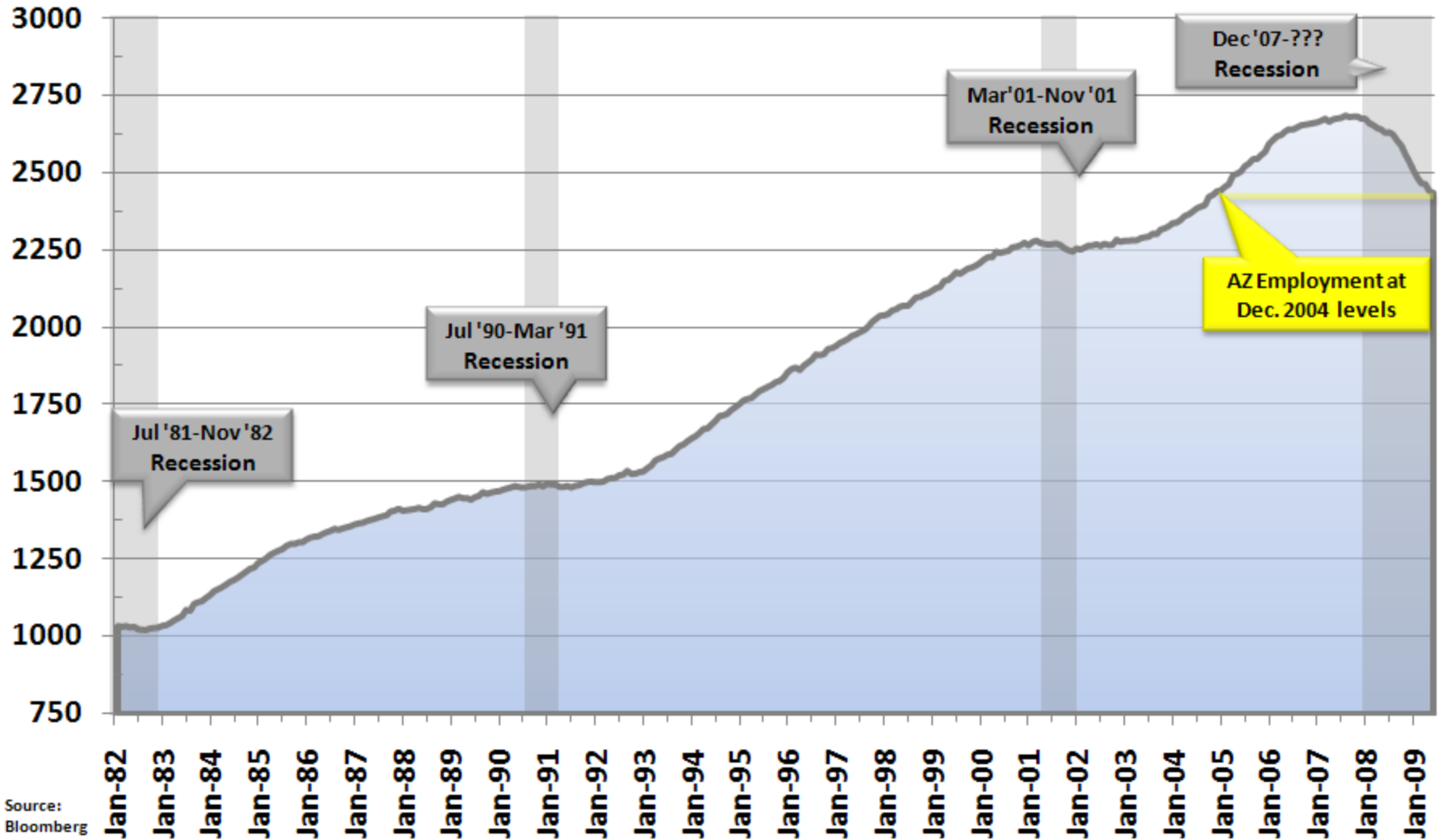
Economic Outlook



AZ Unemployment



AZ Non-Farm Jobs



Source:
Bloomberg
2009 L.P.



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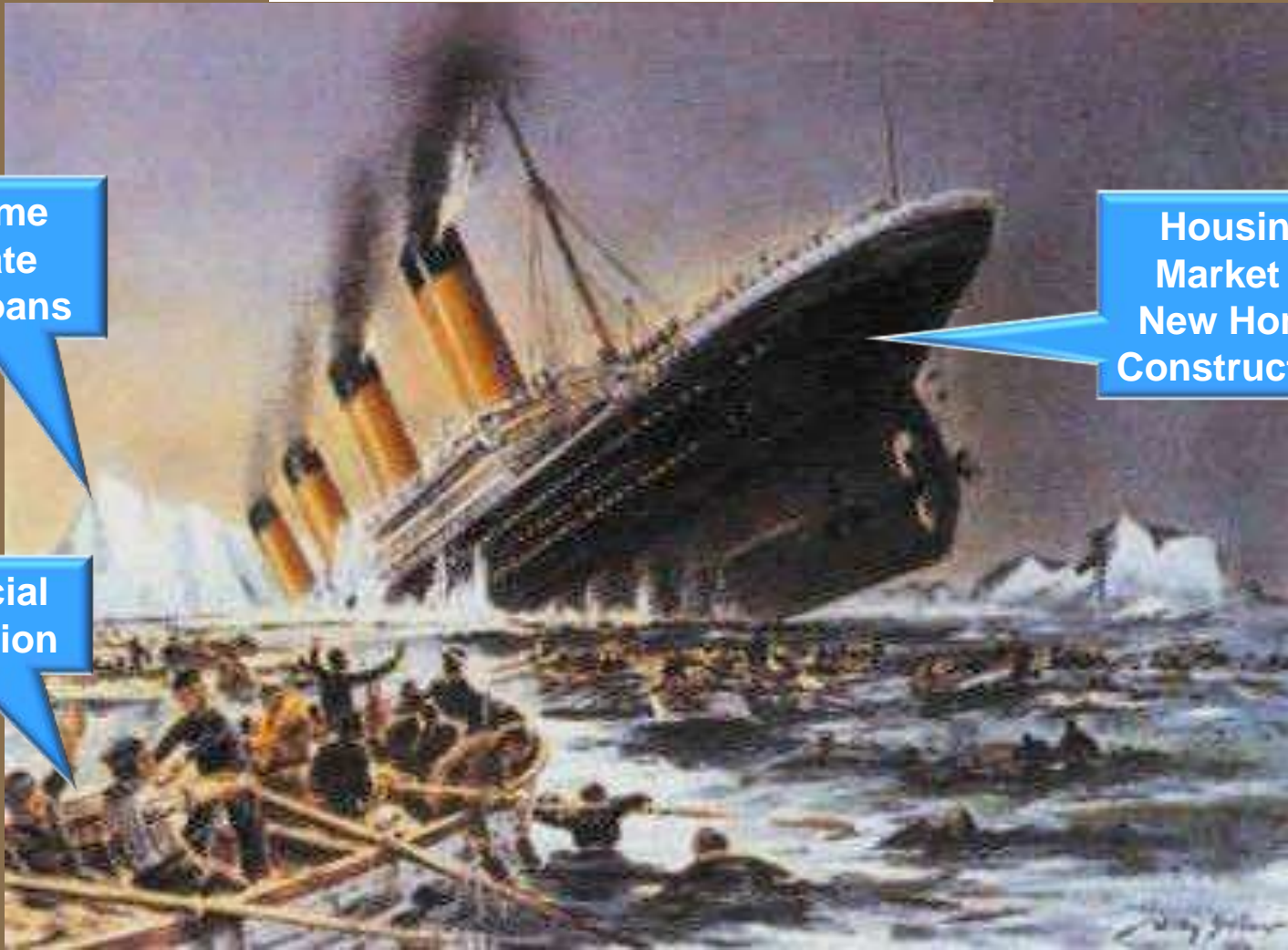
Housing & Construction

Previous Outlook

Sub-prime
High-rate
NINJA Loans

Housing
Market &
New Home
Construction

Commercial
Construction



Housing & Construction

Current Status



Commercial Property Bubble Burst Last Year



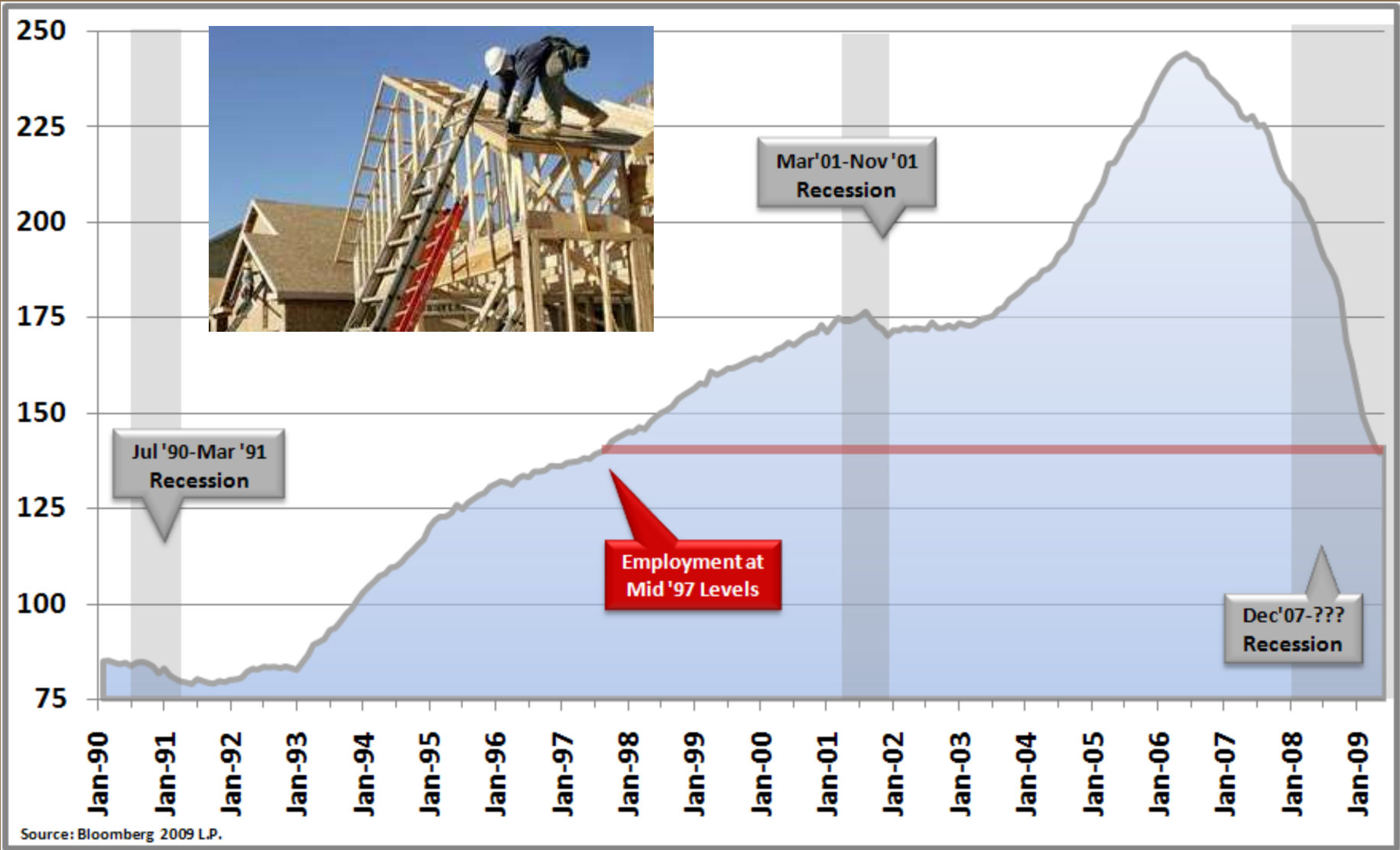
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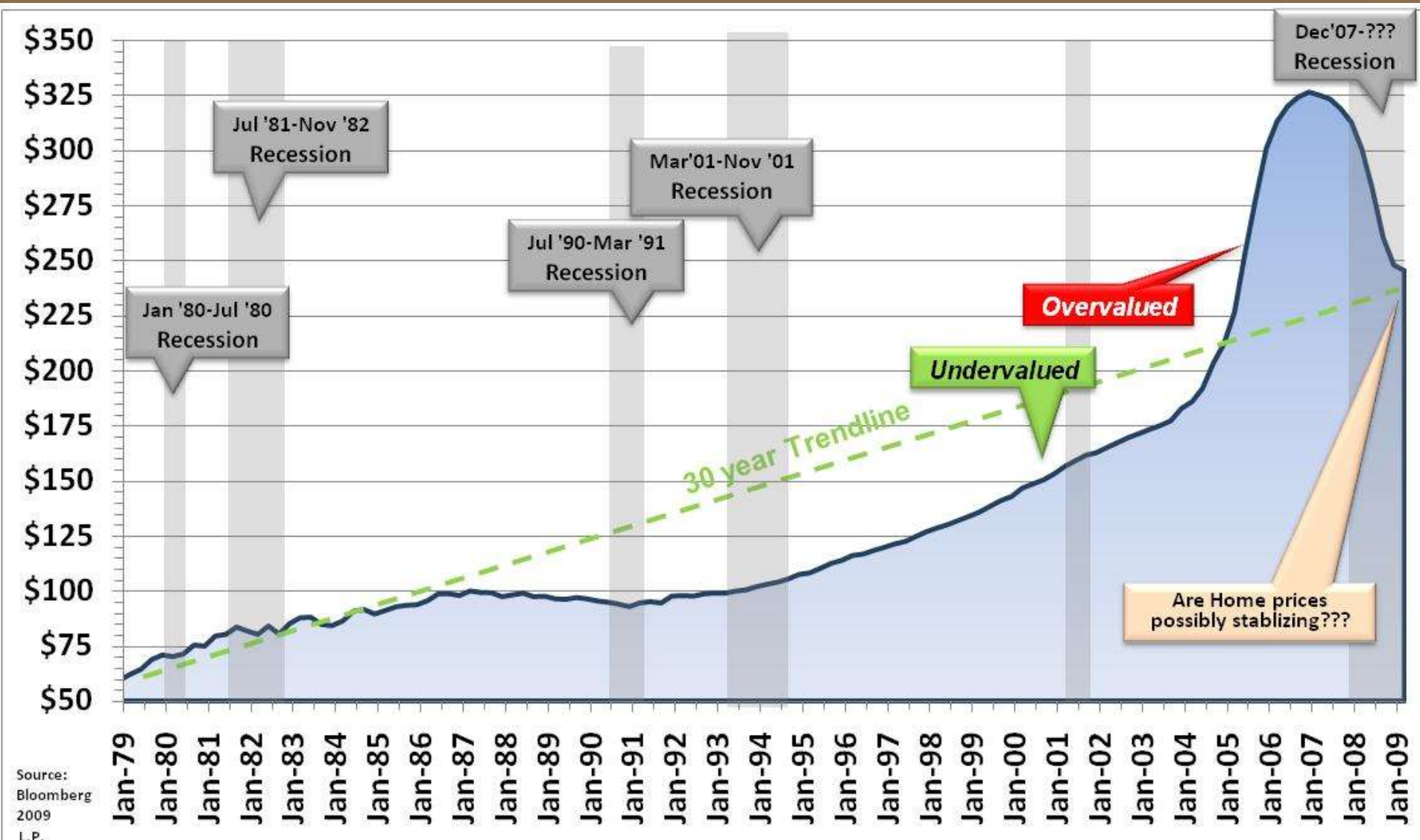
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AZ Construction Employment at 1997 levels!



AZ Conventional Mortgage Price Index for Valley



Source:
Bloomberg
2009
L.P.



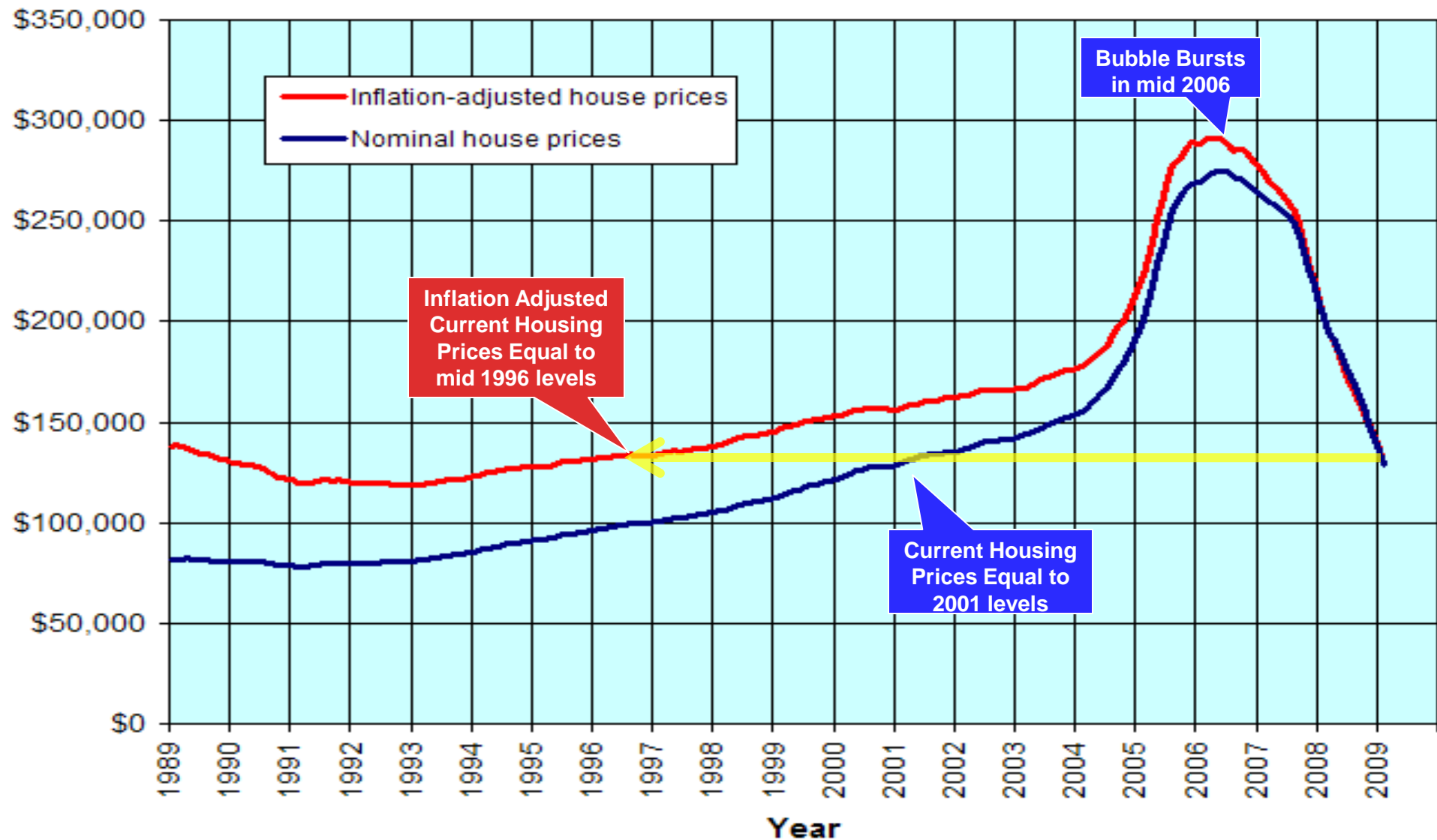
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Phoenix, Arizona Metropolitan Area House Prices



Latest quarterly, median, existing, single-family home price provided by the National Association of Realtors. Trailing house price index data provided by Standard & Poors. Inflation data provided by the Federal Reserve Bank of Cleveland. The chart on this page estimates the market value of today's median-priced house over time. The trailing nominal prices are derived by taking the recent median price of existing single-family homes, as reported by the National Association of Realtors, and discounting it by the S&P/Case-Shiller Home Price Index. The S&P/Case-Shiller HPI is a "constant quality" index, so even though houses are built larger today than they were many years ago, this graph automatically adjusts for this variation. The trailing inflation-adjusted prices are then derived by adjusting the nominal prices by the *CPI-U Research Series Using Current Methods*. <http://mysite.verizon.net/vzeqrguz/housingbubble/phoenix.html>



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Arizona still Over Stocked on Homes, but improving



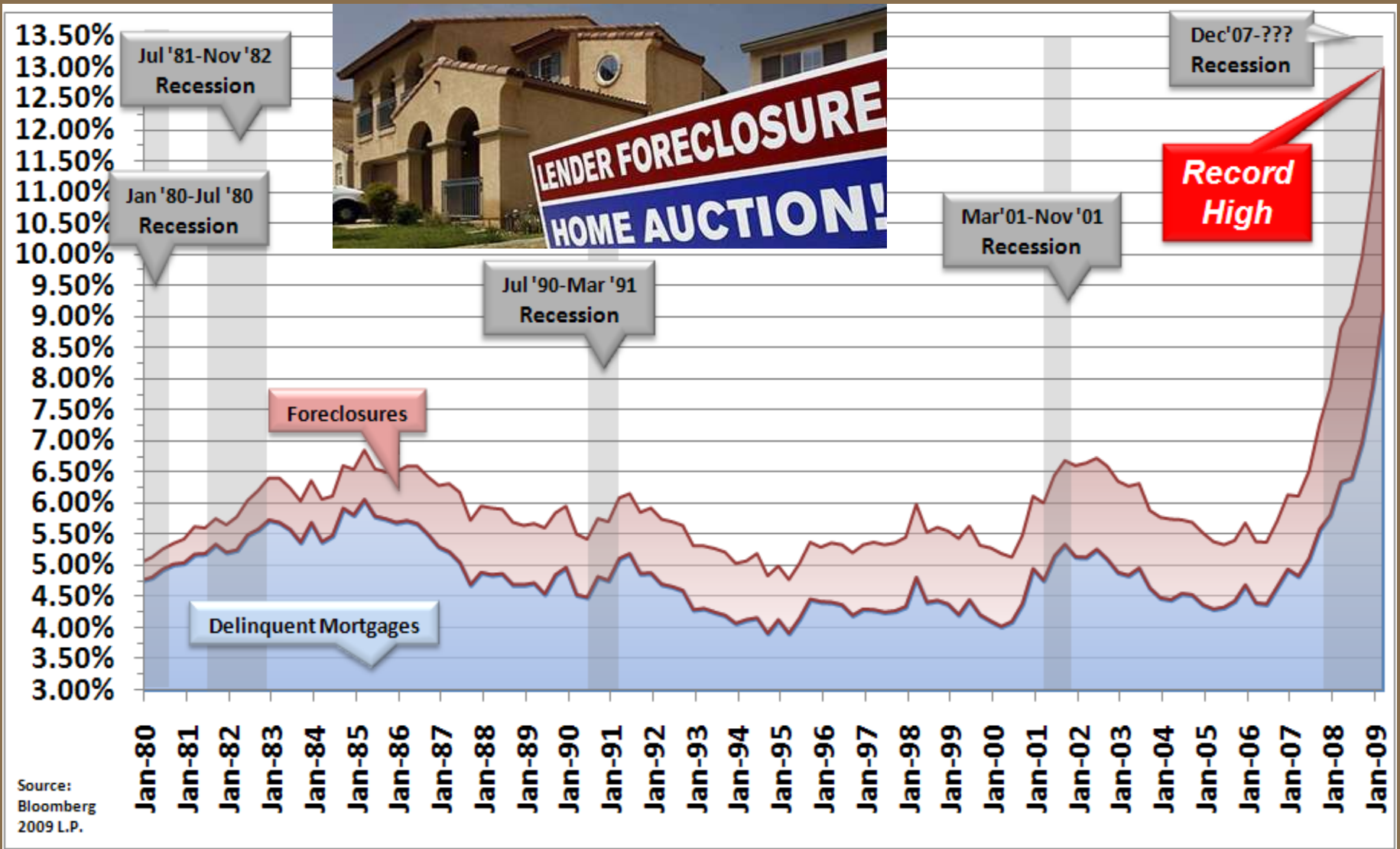
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13% of US Mortgages Distressed



*So how about some
good news?*



*I just saved a
bunch of money on
my car insurance!*

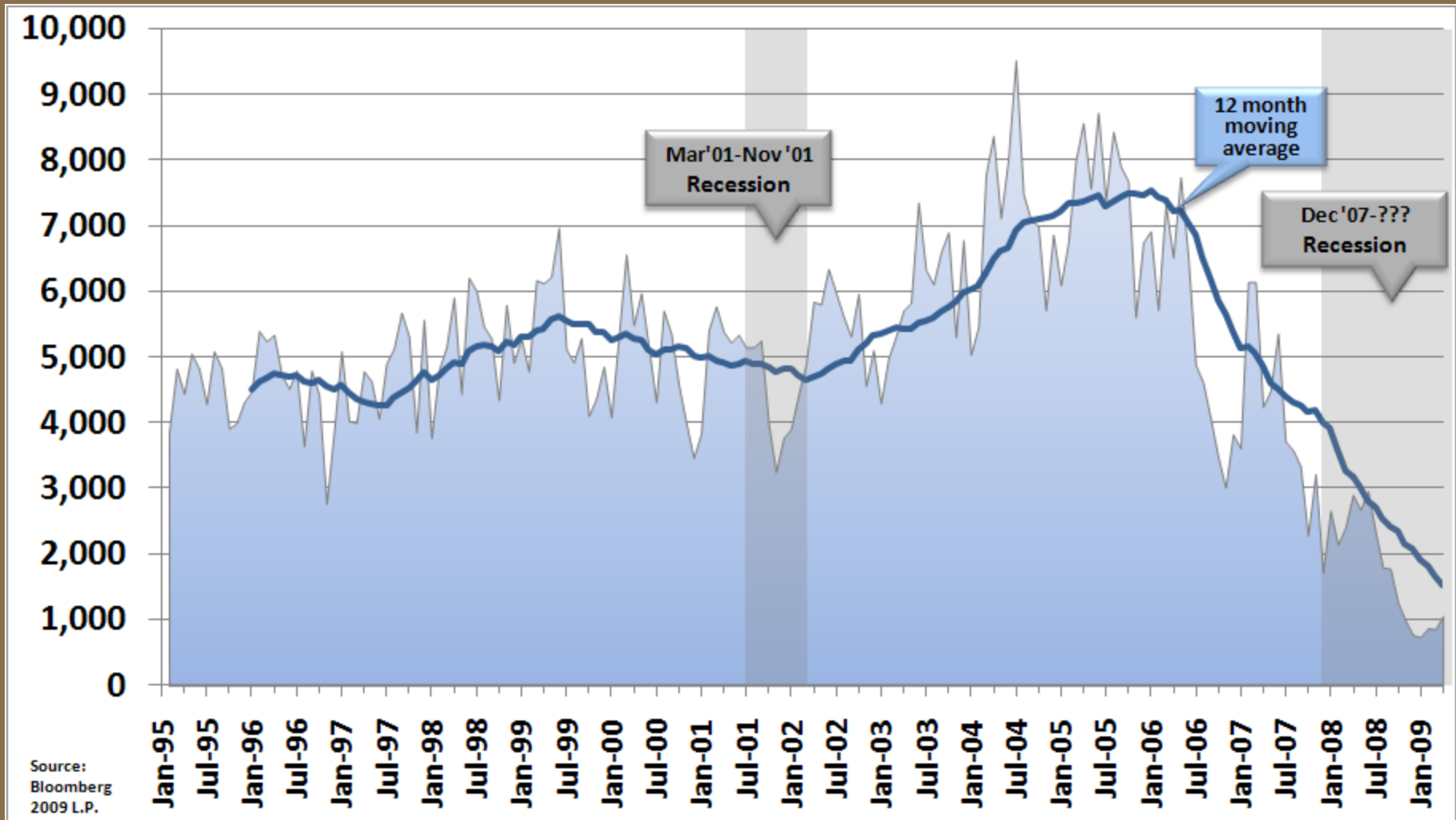


Signs of spring on the horizon?



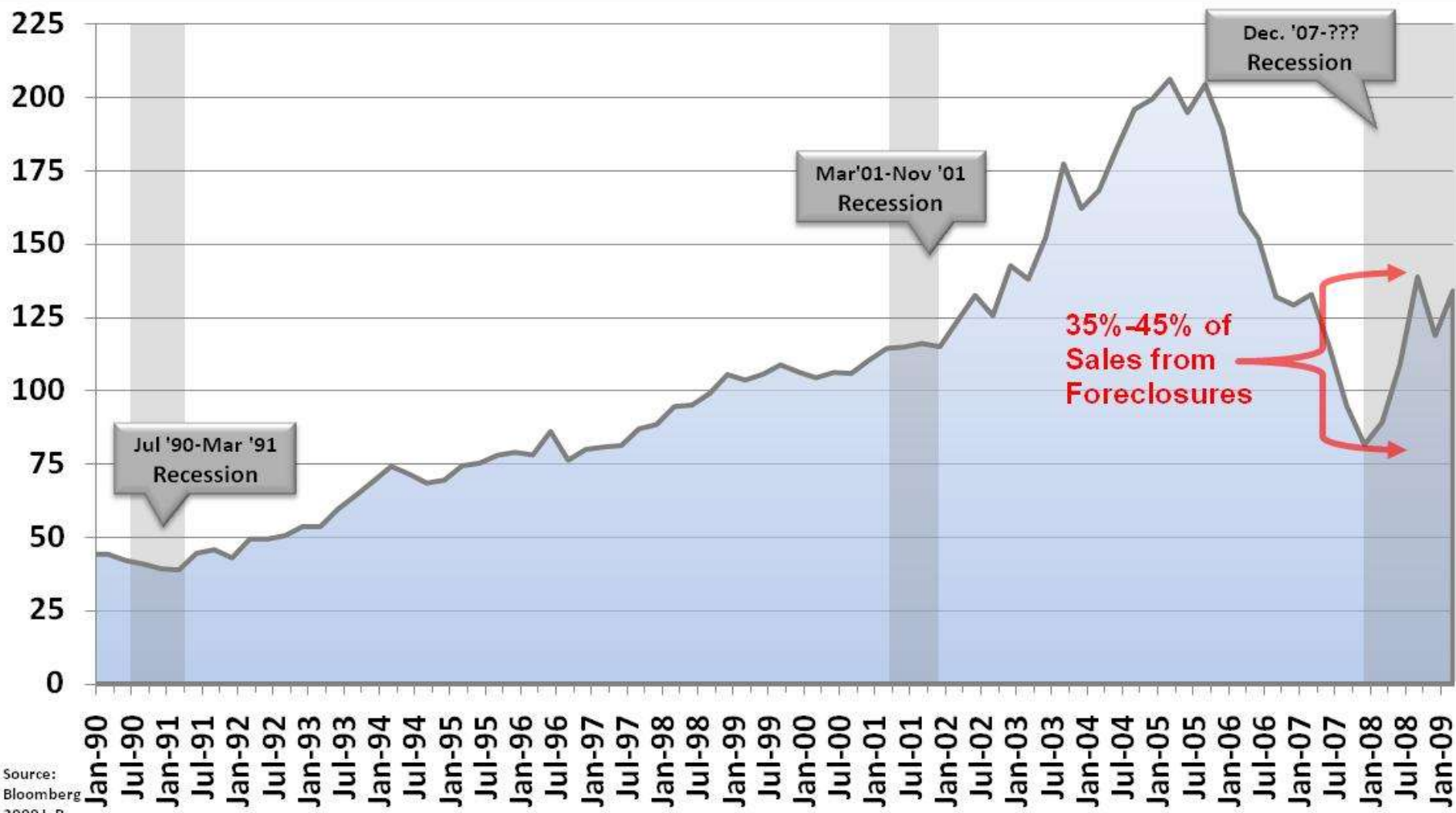
Arizona Housing Permits: Nearing a Bottom?

Total Monthly Arizona Residential Building Permits 1995 to April 2009



Arizona Sales of Existing Homes Moving Up

Quarterly Data Jan. 90 through March 2009



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DEAN MARTIN
CERTIFIED**

Quick and Easy Economic Gauge

**MATH NOT
REQUIRED!**



Watch your local Starbucks



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As long as people are still buying
\$4 cups of coffee:
They still have disposable income



Mild Recession



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Moderate to Severe Recession



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People can't buy a \$1.29 cup of coffee:



Depression



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Economic Forecast



The Economic Cycle

**The
Bubble
Bursts**

**The
Crash
Phase**

**The
1st
Turn**

**Hit
Bottom**

**The
Recovery
Begins**



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The National Economy & Financial Markets

1st
Crash
Phase

1st Turn
April 2008

End of
2011

The
Housing
Bubble
Bursts

Zero
Growth

New Crash
Phase
Sept. 2008

End of
2010

Hit
Bottom
4th Qtr.
2009



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The Arizona Economy

The
Housing
Bubble
Bursts

Zero
Growth

The
Crash
Phase

1st Turn
1st / 2nd
Qtr. 2009

Hit
Bottom
End
2009

End of
2010

End of
2011

End of
2012



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Arizona Housing lags National Housing Market

The
Bubble
Bursts

Where
we are
now

1st Turn
Late
1st Qtr
'09

Hit
Bottom
4th Qtr.
2009

End of
2010

End of
2011

End of
2012

End of
2013

End of
2014



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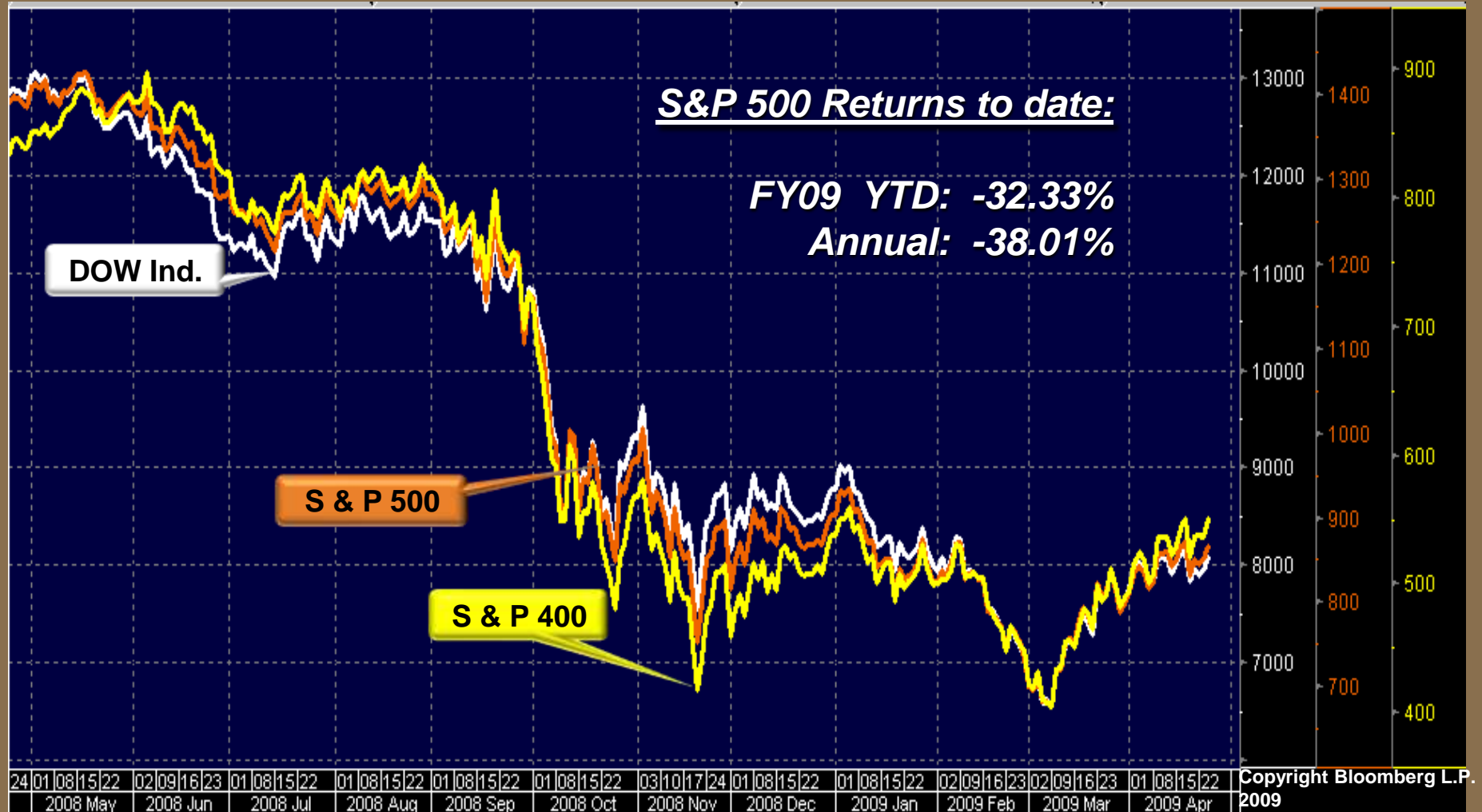


Swine Flu going to prolong the US recession?



US Stock Markets

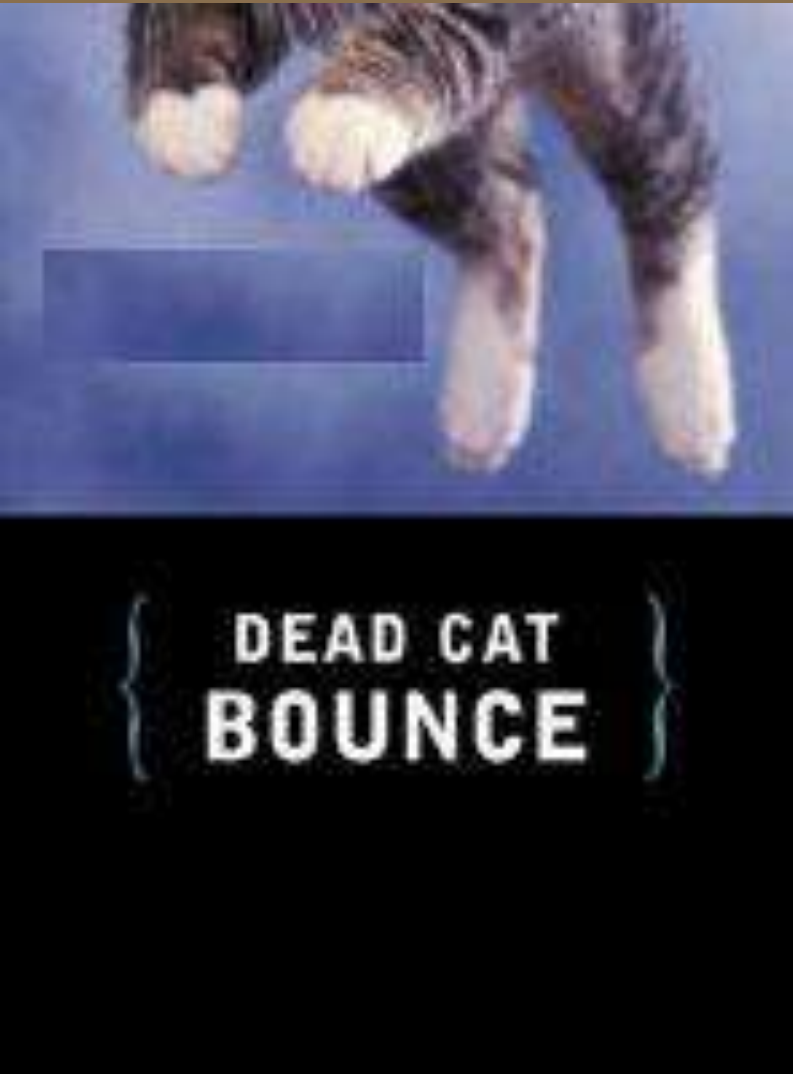
DOW, S&P 500, S&P 400



Are The Bears Taking A Nap?



Or has the recent rally been a...



A dead cat bounce is a figurative term used by traders in the finance industry to describe a pattern wherein a spectacular decline is followed by a moderate and temporary rise before resuming its downward movement, with the connotation that the rise was not an indication of improving circumstances in the fundamentals of the stock. It is derived from the notion that "even a dead cat will bounce if it falls from a great height".



DOW, S&P 500 & 400 Quarterly since 1980



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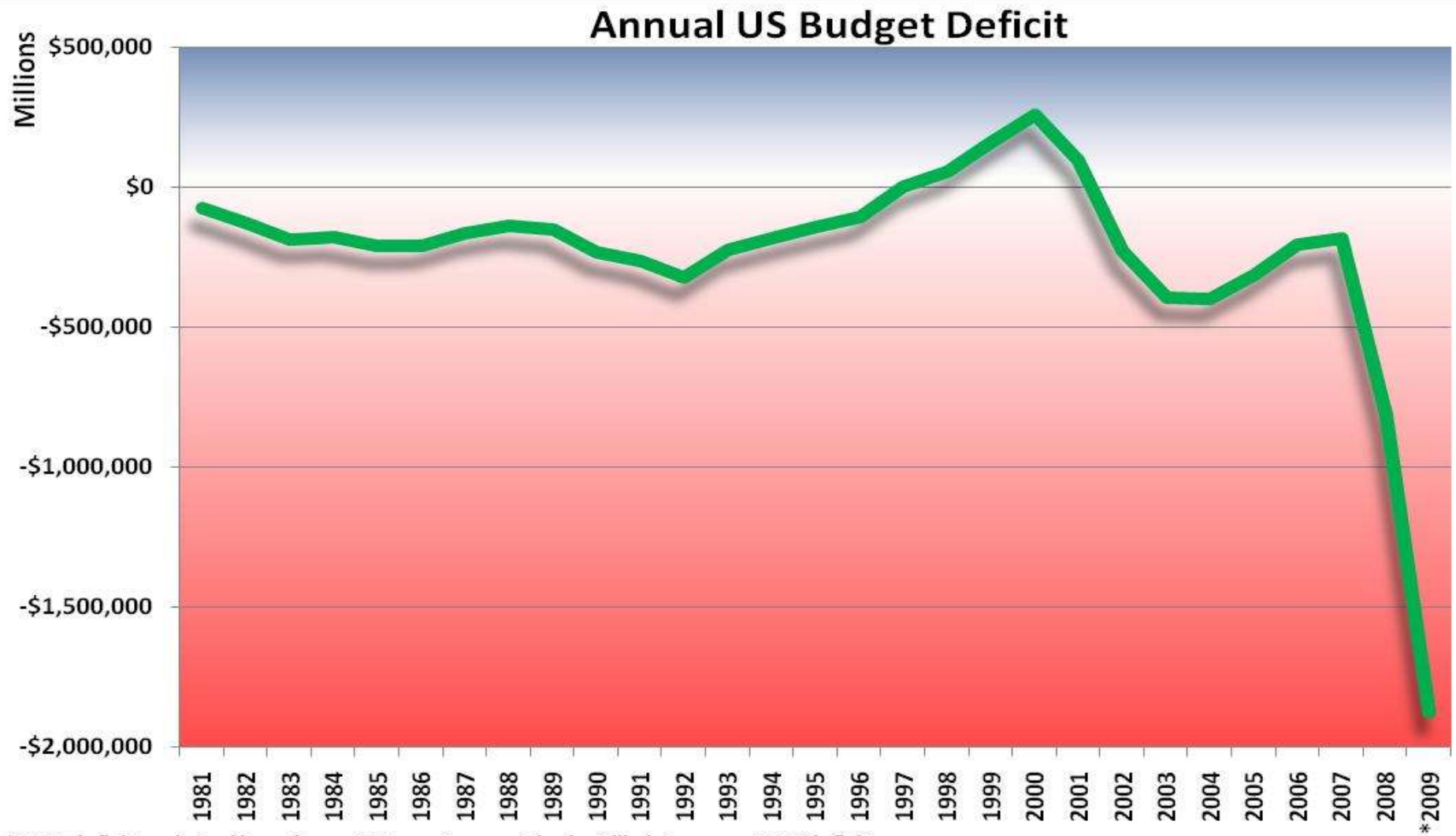
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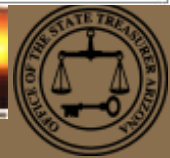
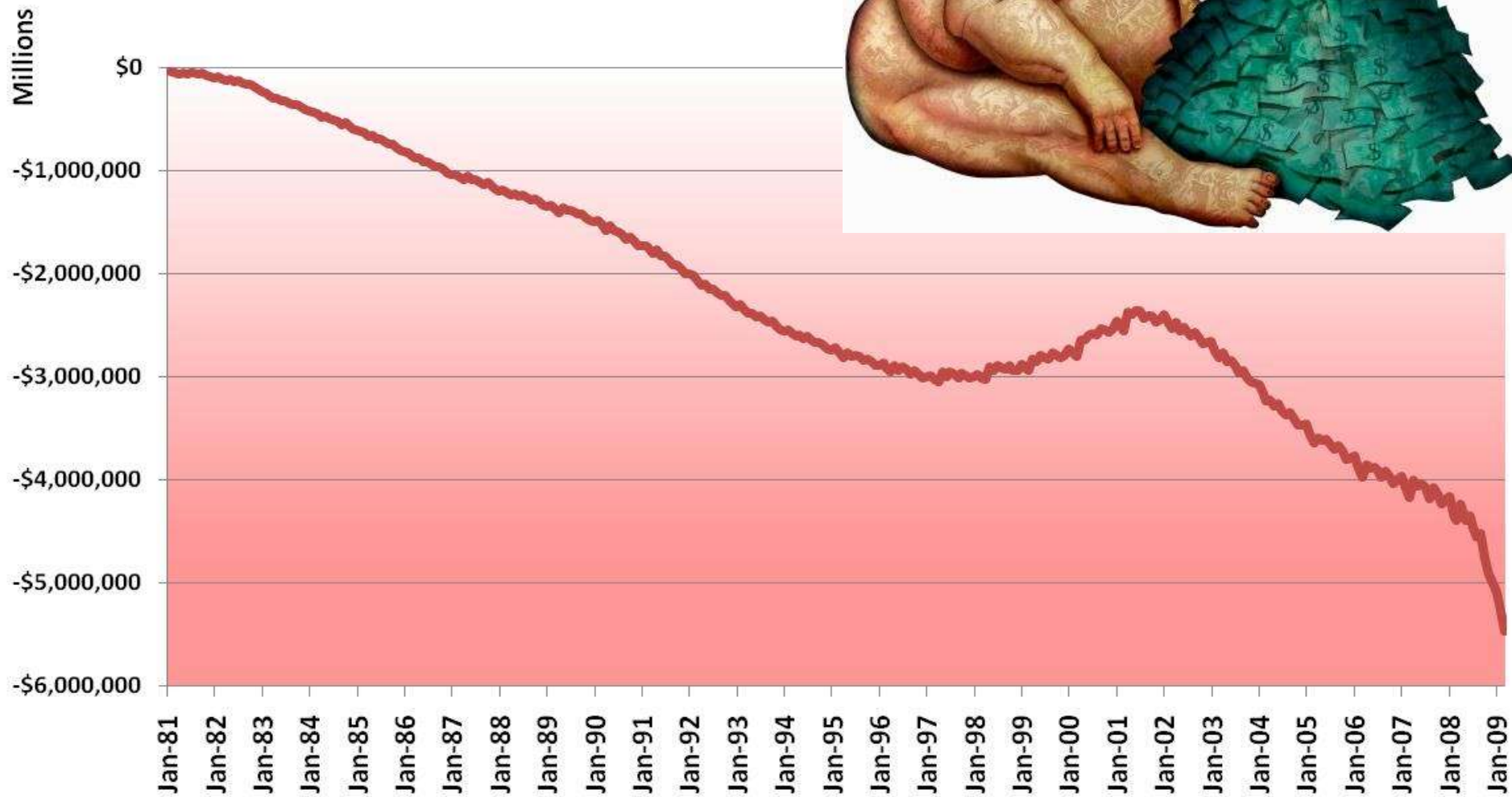
Is High Spending Going To Impact Inflation?



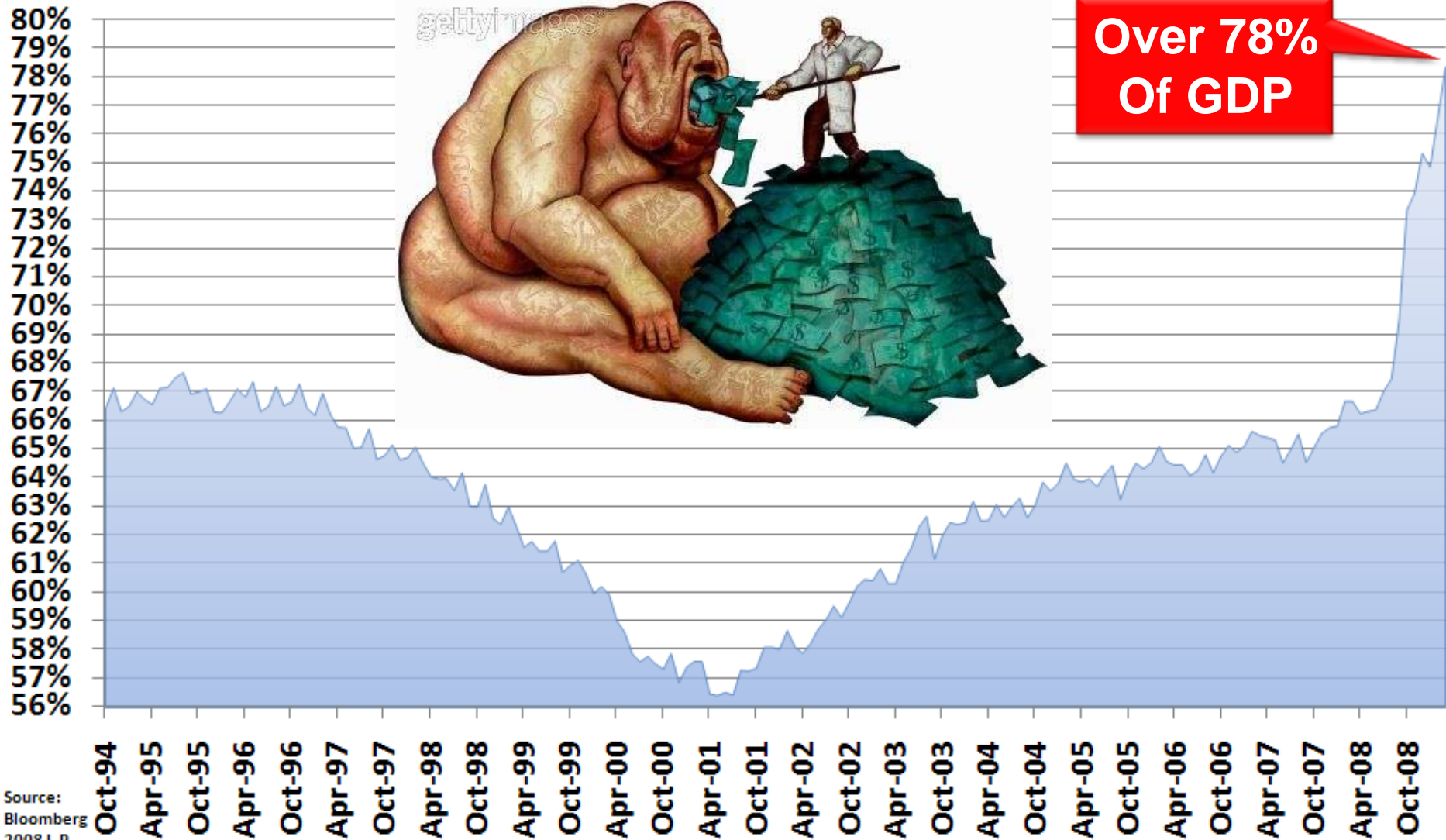
Annual US Budget Surplus / Deficit



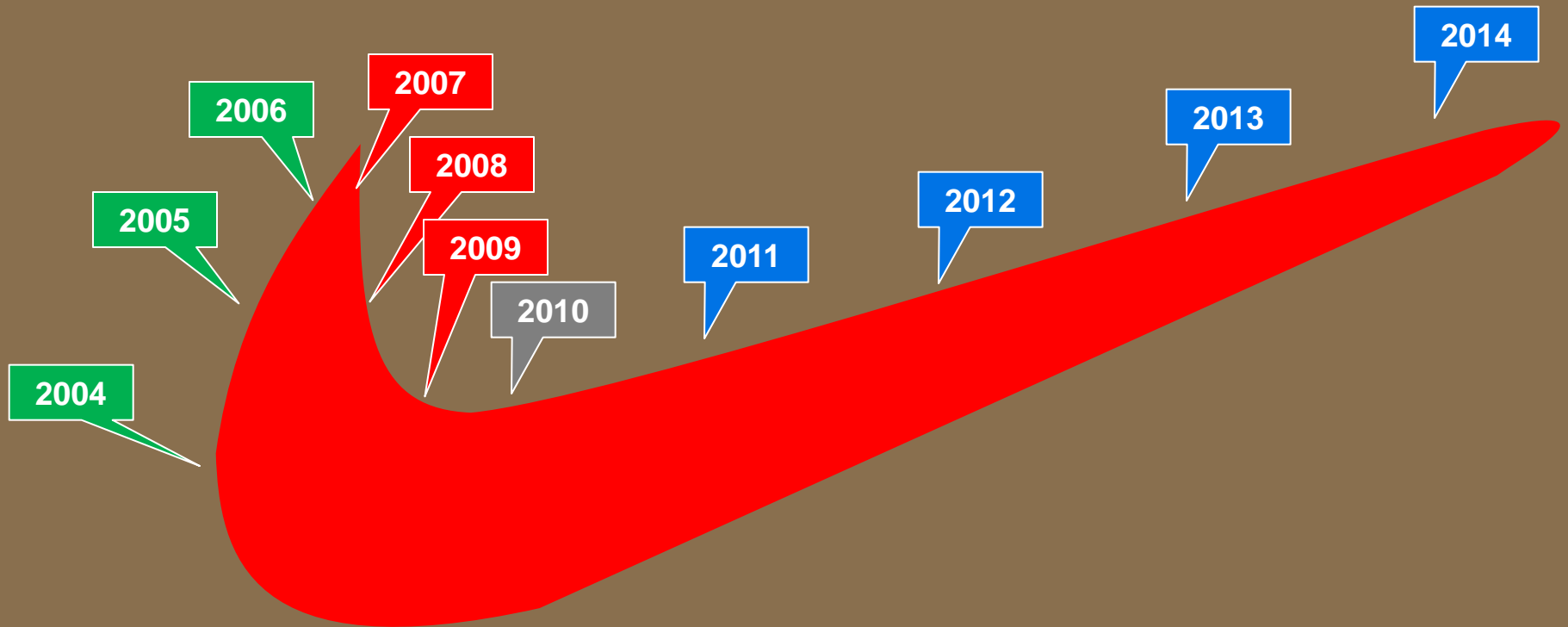
Cumulative Total US Debt since 1981



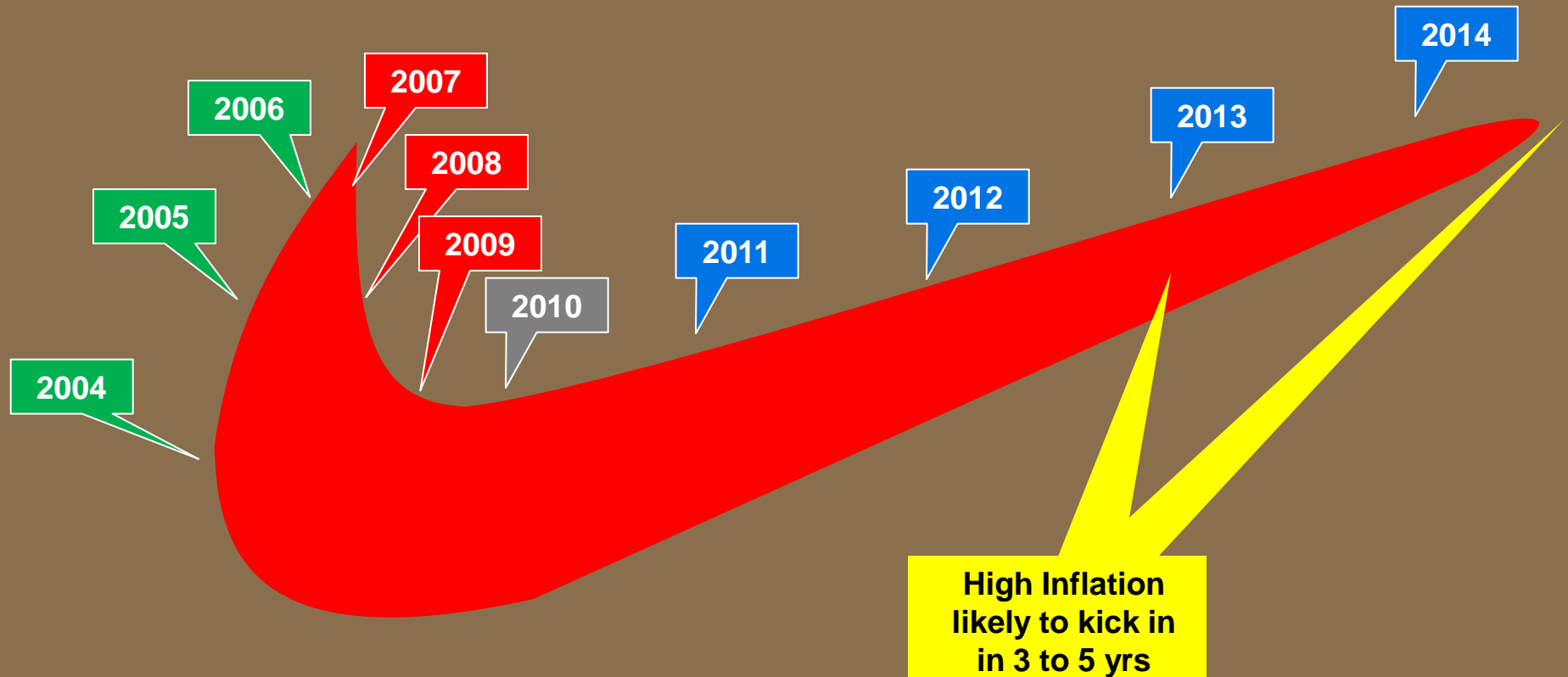
Federal Debt as % of GDP is Soaring



“Nike” Whoosh Forecast



“Nike” Whoosh Forecast



State Budget Update



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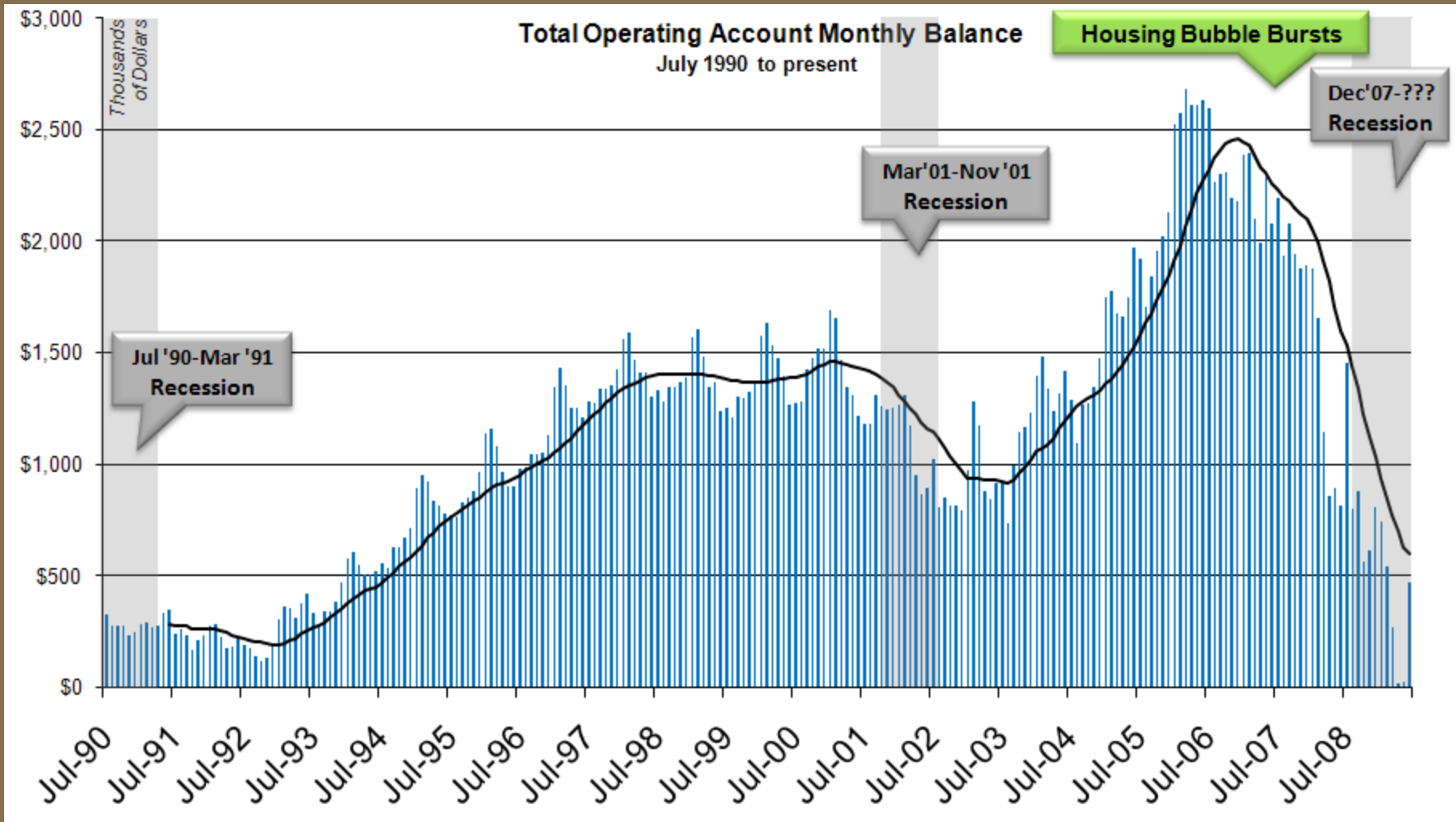
State Operating Fund Ran Out Of Cash In April as forecasted



- Short \$340 million on April 15th
- Operating Fund in the Red until April 28th
- Average daily shortfall \$198 million



State Total Operating Account Average Monthly Balance July 1990 to present



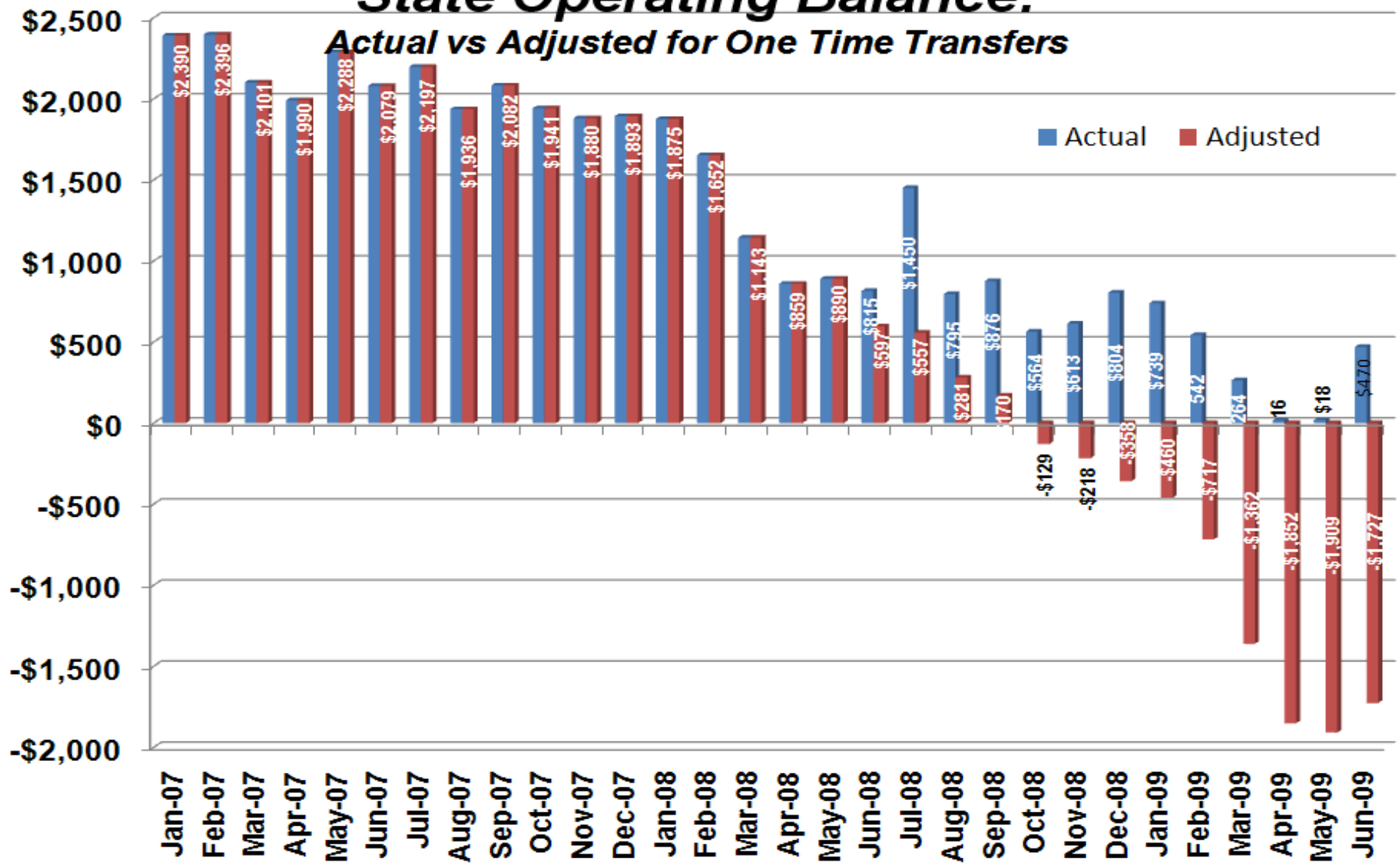
State Operating Cash Balance Continues Downward Trend

Percent Change in Operating Account Balance



State Operating Balance:

Actual vs Adjusted for One Time Transfers



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How do we keep the lights on?

Where does the money come from?



Where did the money come From?



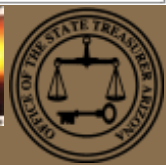
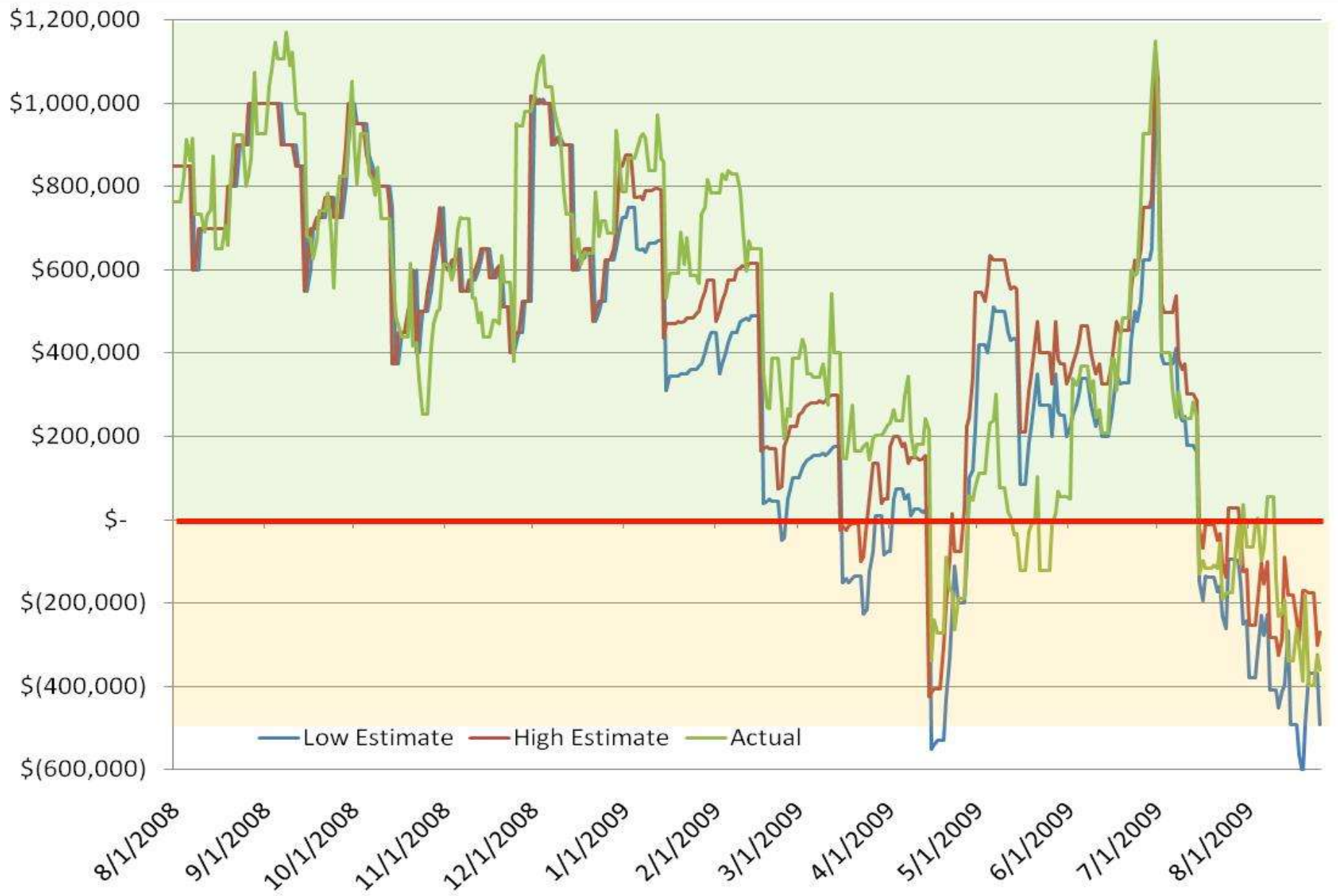
- State Agencies Diversified Pool 3.
- Has about \$1.2 billion in assets.
- Consists of non-general fund state agency funds allowed to earn interest.
- Purchased Treasurer's Warrant Notes rather than Treasuries, Agencies, or Repo.

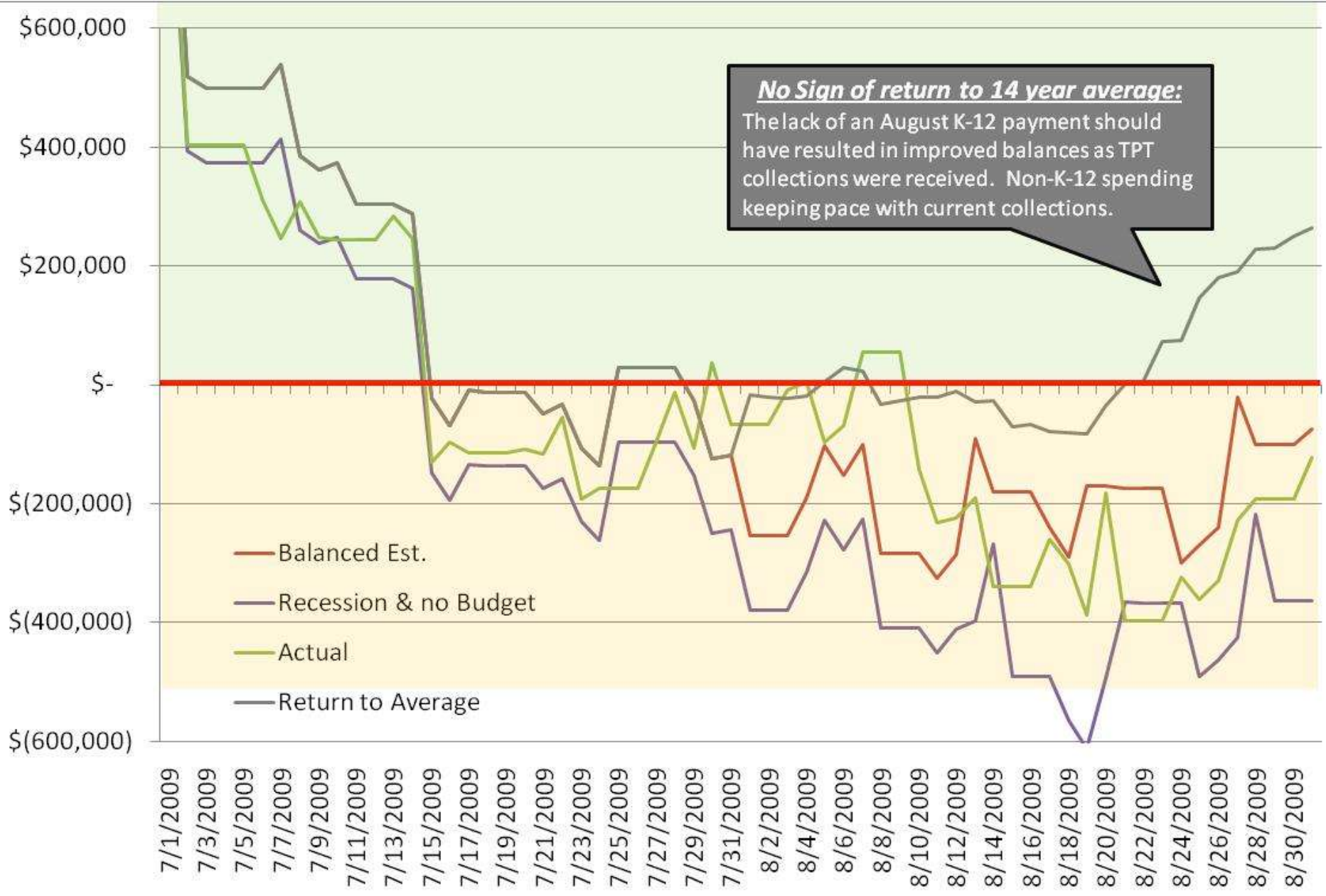
**We Will Not Tap Any LGIP Funds
For State Borrowing.**

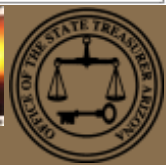
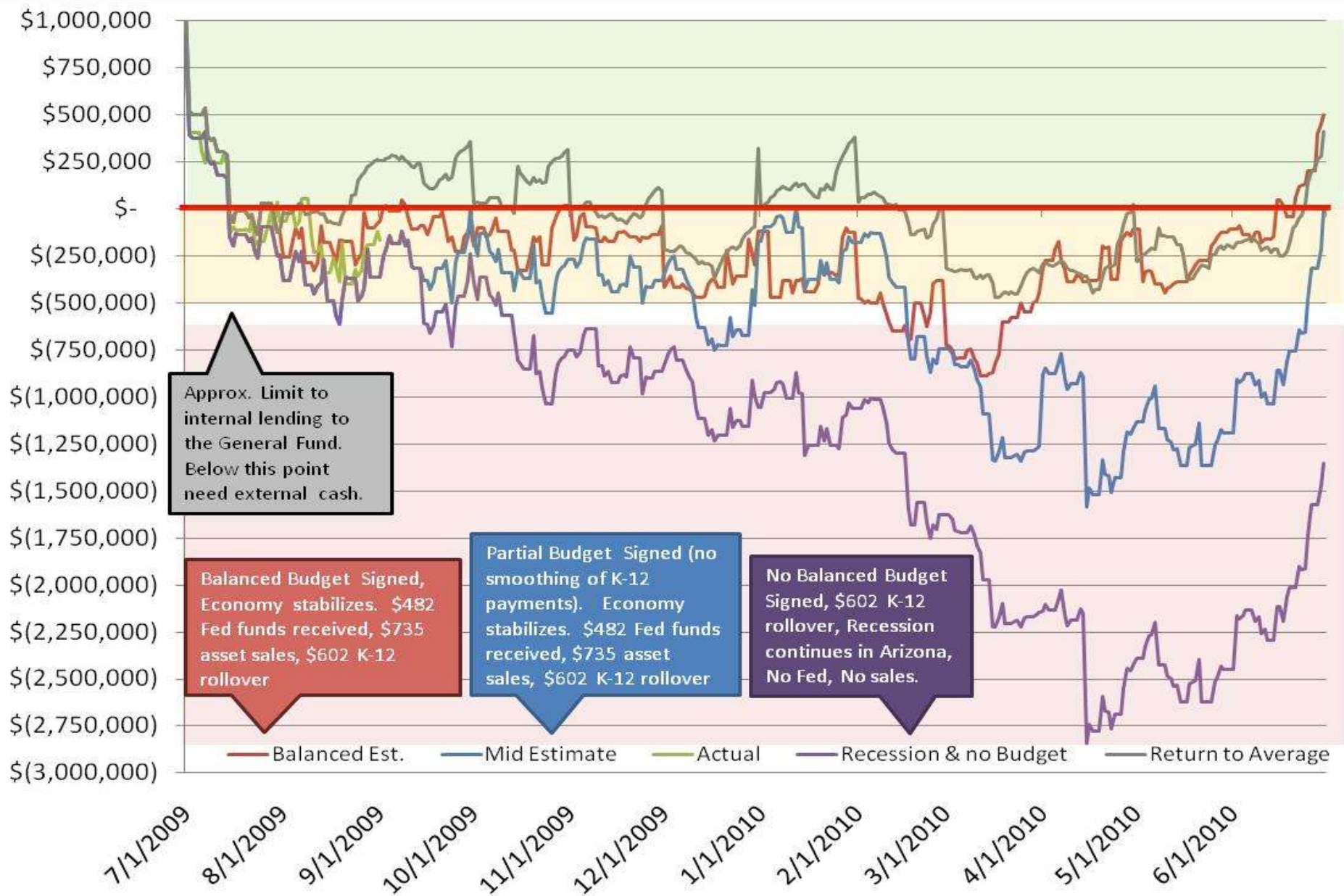


CASH FLOW FORECASTING









What went wrong?

'07 Revenues
\$9.7 Billion

'07 spending
\$9.6 billion



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What went wrong?

Spending is off the rails '08 Budget

'07 Revenues
\$9.7 Billion

'08 spending
\$10.6 billion

'07 spending
\$9.6 billion

'08 Revenues
\$8.8 Billion



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What went wrong?

Spending is off the rails '08 Budget

'07 Revenues
\$9.7 Billion

'07 spending
\$9.6 billion

'08 spending
\$10.6 billion

Revised '08
\$10.3 billion

'08 Revenues
\$8.8 Billion



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What went wrong?

'07 Revenues
\$9.7 Billion

'07 spending
\$9.6 billion

'08 Revenues
\$8.8 Billion

Governor's
FY09 forecast
6% growth
\$9.98 Billion
(**\$9.2 permanent**)

Treasurer's & Leading
Economists Forecast
'09 Revenues
\$7.7 Billion



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What went wrong?

'07 Revenues
\$9.7 Billion

'07 spending
\$9.6 billion

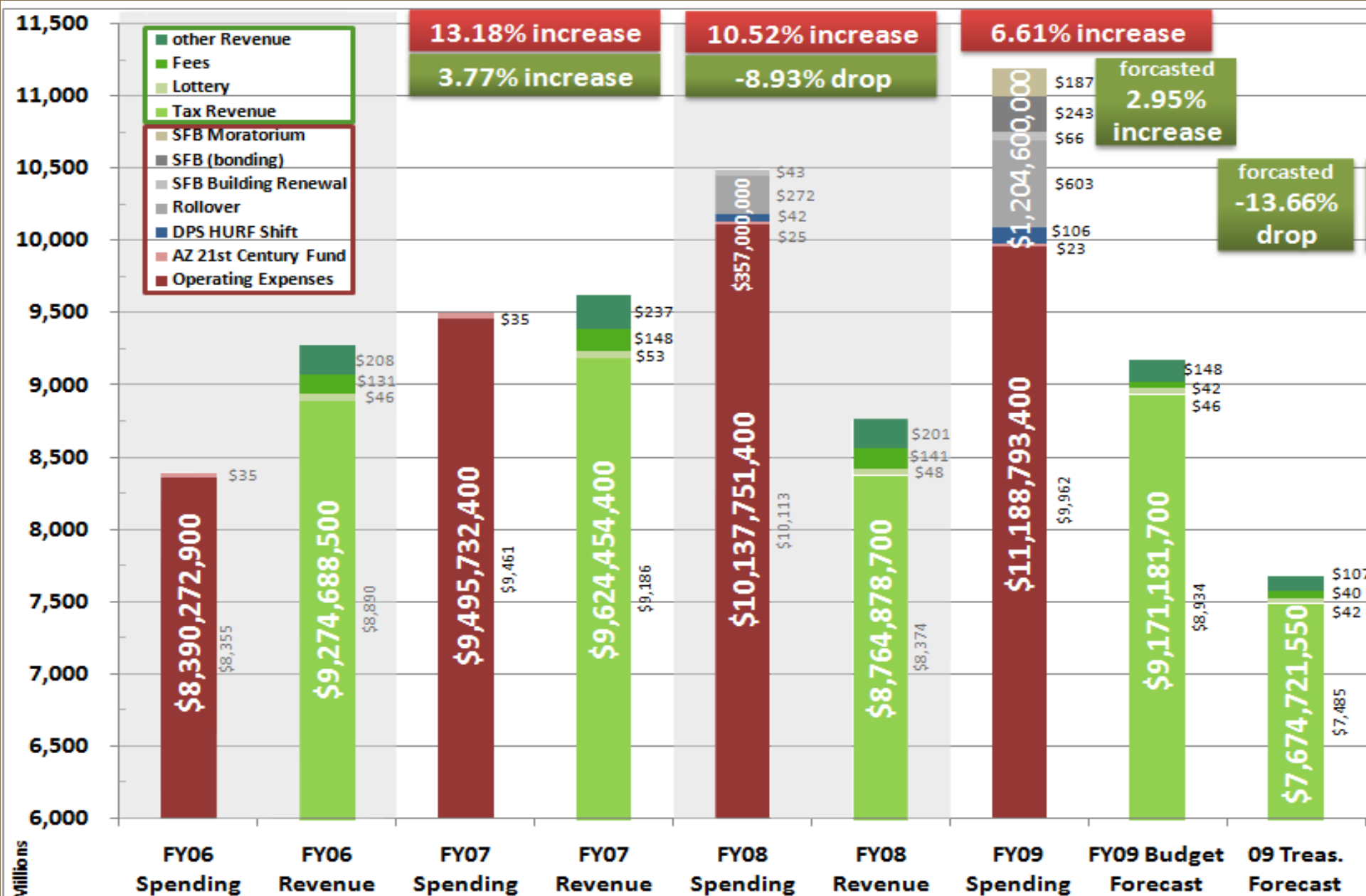
'08 Revenues
\$8.8 Billion

Real '09 spending
\$11.2 billion
(including accounting
gimmicks and debt)

Governor's
FY09 forecast
6% growth
\$9.98 Billion
(\$9.2 permanent)

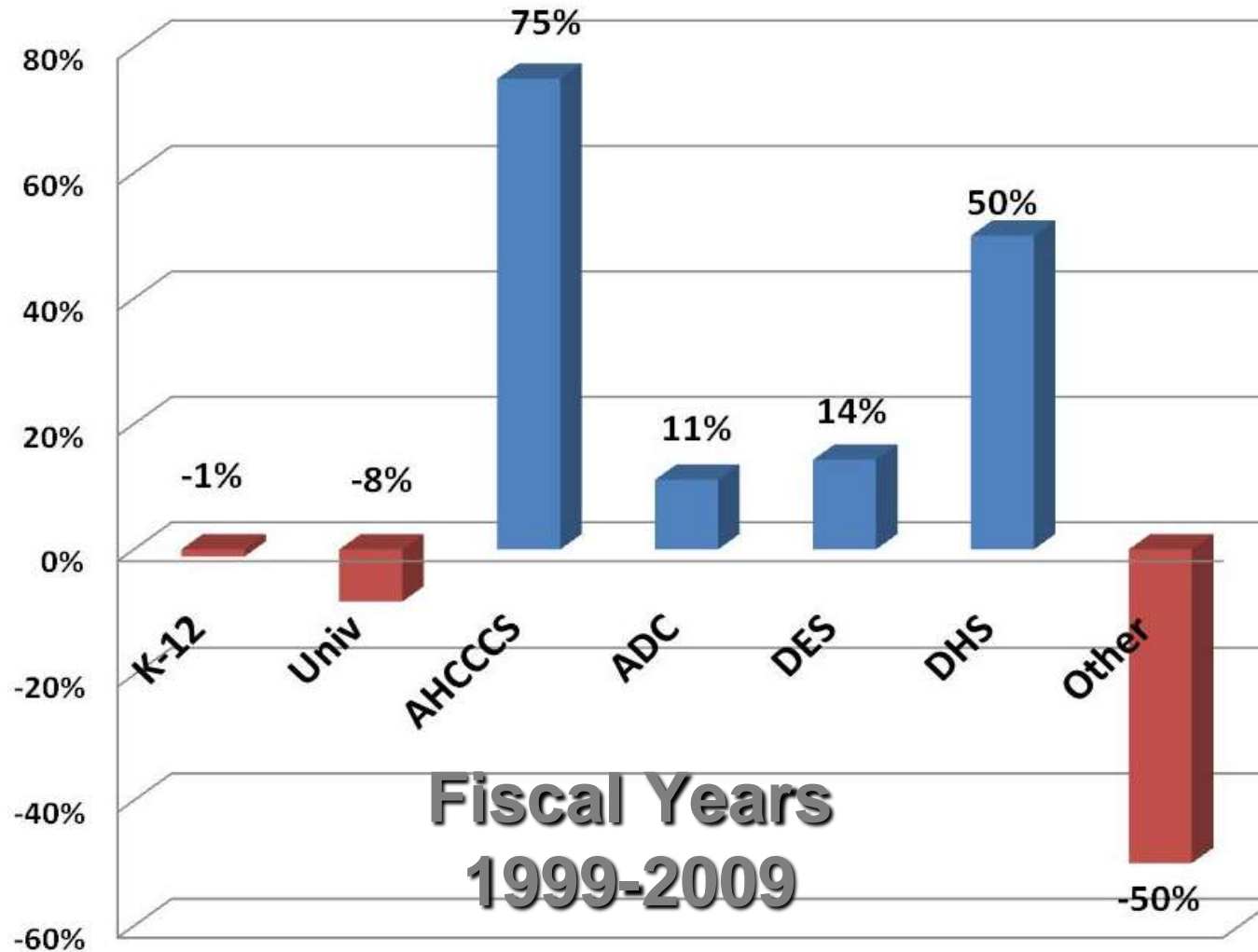
Treasurer's & Leading
Economists Forecast
'09 Revenues
\$7.7 Billion





Where is the money going?

% Change in “slice of the GF pie”



What are
your
priorities?



Questions?

THANK YOU
Presentations & Video:
Available online at:

www.AzTreasury.gov

